

RECOMMENDATIONS OF THE THIRTEENTH FC ON TAX DEVOLUTION AND GRANTS –IMPLICATIONS FOR EQUITY AND INCENTIVES

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ABSTRACT

As per the Terms of Reference for the Thirteenth Finance Commission, the commission has been mandated to recommend a share of the net proceeds of taxes & duties of the Union Government and allocation between the states of such proceeds for the award period 2010-2015. The intergovernmental transfers, their rationale, relative merits and demerits have gained wide currency in the literature of fiscal federalism. The reasons commonly advocated in the theory of public finance to justify revenue transfer from the centre to the federal units may be schematized into three categories. Firstly transfers are imperative to redress the vertical imbalance or the fiscal gap that stems from the asymmetric organization of functions and tax powers among different jurisdictions. Secondly matching grants are provided by the central Govt. so that public goods are produced to the socially optimal level. Thirdly transfers from the centre are mandated to ensure fiscal equalization among the states in the interest of both equity and efficiency.

The present paper is a modest attempt to examine the last category of transfers that signifies the horizontal imbalance- the equalization grants, which constitute the bulk of the transfers in many federations including India. Such transfers are supposed to be more controversial as they involve the perceived conflict between equity and efficiency and inter se sharing instead of being progressive often becomes more regressive and accentuates regional disparities.

KEYWORDS: Devolution, Horizontal Imbalance, Federation & Interse

Received: Jul 02, 2017; **Accepted:** Jul 22, 2017; **Published:** Jul 27, 2017; **Paper Id.:** IJECRAUG20178

INTRODUCTION

The Thirteenth FC was constituted by the President under Article 280 of the constitution on 13th Nov. 2007 to make recommendations for the period 2010-15 with Dr. Vijay Kelkar appointed as Chairman of the Commission. The FC-XIII submitted its Report on 30th Dec. 2009. The overall approach of FC-XIII is to foster “inclusive and green growth promoting fiscal federalism”. As against the level of 75% targeted by 12th FC, the combined Debt-GDP ratio was 82% in 2009-10. The 13th FC focused on anchoring the fiscal consolidation process in a medium term debt reduction framework. The 13th FC proposes reducing the combined debt-GDP ratio to 68% by 2014-15 with the centre’s Debt-GDP ratio declining to 45%. It recommended a calibrated exit strategy from the expansionary fiscal stance of 2008-09 and 2009-10.

The FC-XIII has recommended fiscal consolidation through the elimination of revenue deficit as the long term target for both the centre and states. It indicated a normative discipline for both centre and states with equal treatment which entailed no automatic priority for any level of Govt. and focuses on equalization. It implies that states and local bodies have the fiscal potential to provide comparable level of public services at reasonably comparable level of taxation. The principle does not guarantee uniformity in public services across the country but it addresses the fiscal

requirement of each jurisdiction to enable such uniformity.

Goods and Services Tax (GST) as a game changing tax reform measure will significantly contribute to the buoyancy of tax revenue and acceleration of growth as well as generate positive externalities. FC-XIII proposed a grand bargain. The Six elements of grand bargain for GST included (i) the design, (ii) operational modalities (iii) binding agreement between the centre and states with contingencies for change in rates and procedures (iv) disincentives for non compliance (v) the implementation schedule and (vi) the procedure for states claim compensation. For this purpose the FC-XIII recommended the sanction of Rs. 50,000 Cr. as compensation for revenue losses of states on account of the implementation of GST. This amount would shrink to Rs. 40,000 Cr. If implemented on/ after 18th April 2013 and further to Rs. 30,000 Cr. if implemented on / after 18th April 2014.

Major Recommendations of FC XIII are Enumerated Below

- The share of states in net proceeds of shareable central taxes shall be 32% every year for the period of the award.
- Revenue accruing to a state is to be protected to the level that would have accrued to it provided Service Tax, a part of sharable central taxes if 88th Amendment to constitution is notified and followed up by a legislation enabling states to levy service tax.
- Centre to review the levy of cesses and surcharges with a view to reducing their share in its gross tax revenue.
- The indicative ceiling on overall transfer to states on revenue account may be fixed at 39.5% of gross revenue receipts of the centre.
- The Medium Term Fiscal Plan (MTFP) should be a statement of commitment rather than intent.
- New disclosures have been specified for the Budget/MTFP including on tax expenditure. Public Private Partnership liabilities and the details of variables underlying receipts and expenditure projections.
- Fiscal Responsibility and Budget Management (FRBM) Act needs to specify the nature of shocks that would require relaxation of the targets there under.
- States are expected to be able to get back to their fiscal correction path by 2011-12 and amend their FRBM Acts to the effect.
- State Govt.s are to be eligible for the general performance and special area performance grants only if they comply with the prescribed stipulations in terms of grants to local bodies.
- National Calamity Contingency Fund (NCCF) should be merged with National Disaster Response Fund (NDRF) and the Calamity Relief Fund (CRF) with the state Disaster Response Funds (SDRFs) of the respective states.
- A total non-plan revenue grant of Rs. 51,800 Cr. is recommended over the award period for 8 states. A performance grant of Rs. 15,000 Cr. is recommended for three special category states that have graduated from a non-plan revenue deficit situation.
- An amount of Rs. 19,930 Cr. has been recommended as grant for maintenance of roads and bridges for 4 years (2011-12 to 2014-15).
- An amount of Rs. 24,068 Cr. has been recommended as grant for elementary education.

- An amount of Rs. 27,945 Cr. has been recommended for state specific needs.
- Amount of Rs. 5000 Cr. each as forest, renewable energy and water sector management grants have been recommended.
- A total sum of Rs. 3, 18, 581 Cr. has been recommended for the award period as Grants in aid to states.

Horizontal Sharing

FC-XIII has used equity and efficiency as two guiding principles while recommending inter se shares of states in tax devolution. The principle of equity addresses the problem of differences in revenue raising capacity and cost disabilities across states. The principle of efficiency is intended to address this issue and to motivate the states to exploit their resource base and manage their fiscal operations in a Cost effective manner criteria for Horizontal Sharing has been mentioned in the below table.:

Table 1: Criteria and Weights for Tax Devolution

Criteria	FC-XII Weight	FC-XIII Weight
Population (1971)	25.0	25.0
Area	10.0	10.0
Fiscal Capacity Distance	50.0	47.5
Fiscal Discipline	7.5	17.5
Tax effort	7.5	-
Total	100.0	100.0

The Criteria are Explained Below

Population

Population is an indicator of the expenditure needs of a state. It is a transparent indicator that ensures predictability. This criterion ensures equal per capita transfers to all states, not taking into account cost disabilities across states because of differences in the geographic spread of population. Both FC XII and XIII have assigned weight age of 25% to population. 1971 census population figures have been considered as National population policy has extended 1971 population base up to 2026 with the objective of incentivizing states having better performance in population control and discouraging states with no command over population control.

Area

Area as a criterion in the devolution formula was first introduced by FC-X on the ground that a state with larger area has to incur additional administrative cost to deliver a comparable standard of service to its citizens. The differences in the cost of providing services may increase with the size of a state but only at a decreasing rate and that beyond a point of incremental cost may become negligible. It is one neutral indicator. Both FC XII and XIII assigned 10% weight age to area.

Fiscal Capacity Distance

In the Indian context the ratio between the per capita income of the highest and lowest income states based on average comparable per capita GSDP for the period 2004-05 to 2006-07 stands at 10:1, there is rationale for equity component in the determination of relative fiscal need and rightly this has been recognized by every FC since FC-V1. The intent of the equity component in the devolution formula is to ensure that all states have the fiscal potential to provide

comparable level of public services to their residents at reasonably comparable level of taxation. The equity component is justified not merely to ensure equal treatment of citizens by Govt. but also for economic efficiency reasons to minimize fiscally-induced migration. The equity component in the devolution formula is an enabling provision that does not by itself guarantee uniformity in public service delivery across the states. The income distance criterion used by FC –XIII measured by percapita GSDP is a proxy for the distance between states in tax capacity. The procedure implicitly applies a single average tax- GSDP ratio to determine fiscal capacity distance between states. FC XII recommends the use of separate average for measuring tax capacity, one for general category states and another for special category states. The justification for doing this is that between the two categories, a single average applied implicitly to GSDP does not accurately capture the taxable base for two reasons. Firstly the sectoral composition of GSDP varies across the states and the sectors are not uniform in their taxability. For example, agriculture is not effectively taxable in states except where there are plantations. Secondly GSDP estimates presently available are at Factor cost and therefore exclude income, such as that accruing in the form of remittances. The cross state average ratio of Tax to GSDP is higher for general category states than for the special category, where this difference encapsulates the combination of factors underlying the relative fiscal capacity of the two groups. Thus group specific averages are applied to the two categories to obtain a closer approximation to the distance in fiscal capacity between states. FC XIII has assigned 47.5% weightage to fiscal capacity distance criterion as against 50% assigned by FC XII for per capita income distance.

The use of average tax-GSDP ratio specific to each category neutralizes to an extent the fiscal disadvantage of special category states in terms of tax capacity.

Cost disability governing the norm of devolution conforms to equity based fiscal need, modified by differing cost of service delivery. Cost disability affects both general and special category states. Within the general category there are many states with spatially dispersed human habitations, which raise the cost of equivalent service provision.

Fiscal Discipline

Fiscal discipline as a criterion for tax devolution was used by FC-XI and FC-XII to provide an incentive to states managing their finances prudently. Both the commissions assigned weight of 7.5% to this criterion. The FC-XIII has enhanced this weight to 17.5% emphasizing more on fiscal prudence. The index of fiscal discipline is calculated by relating improvement in the ratio of own revenue receipts of a state to its total revenue expenditure to average ratio across all states. The own revenue receipts of a state include own tax revenue and thus the criterion of fiscal discipline also captures the tax effort of states. Therefore FC XIII has dropped the application of tax effort as a separate criterion. The combined weight assigned by FC-XII to these two criteria was 15%. There is a strong case to incentivize states following fiscal prudence with thrust on fiscal correction. If all states have improved their respective ratios of own revenue to total revenue expenditure then the states with relatively higher improvement than the average receive higher transfers. Similarly if the ratio has deteriorated in all states, then states with lower deterioration than the average receive higher transfers.

The recommendations on tax devolution are based on the considerations of need, fiscal deficiency and adequate incentivization for better performance.

Equity Efficiency Trade off

FC –XII has undermined the equity aspect as the weight age on fiscal capacity distance has been fixed at 47.5% as against 50% weight assigned to per Capita income distance by FC-XII. FC –XII has assigned greater thrust on efficiency

aspect as 17.5% weight has been assigned to this criterion as against 15% (fiscal discipline and tax effort combined) assigned by FC XII. Equity efficiency trade off has resulted in accentuating regional disparities as low percapita income states such as Orissa and Bihar and having fiscal deficiency have appropriated lower chunk out of divisible pool (FC-XIII) vis-a-vis to that of FC-XII.

How progressive is the Devolution Formula?

An important issue relating to the inter se distribution of tax revenue is the progressiveness of the formula applied for determining the shares of the states. A progressive formula based on equity considerations awards more resources to the poorer states enabling them to overcome the differential in revenue capacity and better meet the needs for public goods and services. The formula introduced by FC -XIII do not appear to adversely affect the degree of progressiveness associated with FC- XII and in fact seem to have marginally improved in terms of gain to low income states. A close examination reveals that FC-XIII award has redistributed away from high and middle income states to low income states as compared to FC- XII awards.

Table 2: Inter Se Shares of States

States	FCXII Share	FC XIII Share	FC XII Share in Service Tax	FC XIII Share in Service Tax
Andhra Pradesh	7.356	6.937	7.453	7.047
Arunchal Pradesh	0.288	0.328	0.292	0.332
Assam	3.235	3.628	3.277	3.685
Bihar	11.028	10.917	11.173	11.089
Chhatisgarh	2.654	2.470	2.689	2.509
Goa	0.259	0.266	0.262	0.270
Gujrat	3.569	3.041	3.616	3.089
Haryana	1.075	1.048	1.89	1.64
Himachal Pradesh	0.522	0.781	0.529	0.793
J& K	1.297	1.551	-	-
Jharkhand	3.361	2.802	3.405	2.846
Karnataka	4.459	4.328	4.518	4.397
Kerala	2.665	2.341	2.700	2.378
MP	6.711	7.120	6.799	7.232
Maharastra	4.997	5.199	5.063	5.281
Manipur	0.362	0.451	0.367	0.458
Meghalaya	0.371	0.408	0.376	0.415
Mizoram	0.239	0.269	0.242	0.273
Nagaland	.263	0.314	0.266	0.318
Orissa	5.161	4.779	5.229	4.855
Punjab	1.299	1.389	1.316	1.411
Rajasthan	5.609	5.853	5.683	5.945
Sikkim	0.227	0.239	0.230	0.243
Tamil Nadu	5.305	4.969	5.374	5.047
Tripura	0.428	0.511	0.433	0.519
U.P.	19.264	19.677	19.517	19.987
Uttrakhand	0.939	1.120	0.952	1.138
W.B.	7.057	7.264	7.150	7.379
All States	100.000	100.00	100.000	100.000

Source: FC-XII and FC-XIII Report

From the above table it is evident that UP is having the maximum share of 19.677% as against minimum of 0.239% by Sikkim States gaining from FC-XIII awards are Arunachal Pradesh, Assam, Goa, Himachal Pradesh, Jand K. M.P. Maharastra, Manipur, Meghalaya, Mizoram, Nagaland, Punjab, Rajasthan, Sikkim, Tripura, UP, Uttrakhand and W.B. States losing from FC-XIII awards are Andhra Pradesh, Bihar, Chhatisgarh, Gujrat, Haryana, Jharkhand, Karnataka, Kerala, Orissa and Tamil Nadu 18 states are gainers from FC-XIII awards of devolution of resources whereas 10 states are losers from the awards relative to FCXII. The losing states have to improve their fiscal prudence / discipline to appropriate increased share from FC-XIII.

Table 3: Average Devolution as % of GSDP

States	FCXII	FC XII	Difference (FC XIII-FC XII)
Andhra Pradesh	3.34	2.80	0.54
Arunchal Pradesh	14.24	8.91	5.33
Assam	7.79	5.16	2.63
Bihar	19.44	13.57	5.87
Chhatisgarh	5.47	4.55	0.92
Goa	2.14	1.74	0.40
Gujarat	1.48	1.44	0.04
Haryana	1.10	0.93	0.17
Himachal Pradesh	3.59	1.83	1.74
J & K	6.66	4.23	2.43
Jharkhand	5.44	5.15	0.29
Karnataka	2.69	2.21	0.48
Kerala	2.13	1.94	0.19
MP	8.61	5.61	3.00
Maharastra	1.36	1.04	0.32
Manipur	12.92	7.24	5.68
Meghalaya	7.64	5.20	2.44
Mizoram	13.77	8.31	5.46
Nagaland	9.20	4.95	4.25
Orissa	6.73	5.69	1.04
Punjab	1.92	1.22	0.70
Rajasthan	5.52	3.88	1.64
Sikkam	18.05	12.08	5.97
Tamil Nadu	2.58	2.07	0.51
Tripura	9.31	4.74	4.57
U.P.	10.09	6.79	3.30
Uttrakhand	5.35	3.40	1.95
W.B.	3.67	2.82	0.85

Source: FC-XIII Report (2010-15)

Notes

- Average devolution is determined over the five year period of each of the FC as projected.
- Comparable GSDP used for 2005-06 and 2006-07, 2007-08 to 2014-15 has been used.
- Comparable GSDP projected over the period 2007-08 to 2014-15 has been used.

From the above table it can be observed that Sikkim having the lowest % of share from FC XIII has the highest differential in terms of average devolution as % of GSDP relative to FC-XII. Gujarat which is loser from FC XIII awards has the lowest differential in terms of average devolution as % of GSDP.

Table 4: Gain/Loss in Shares of States Due to Change in Formula between FC XII and FC XIII Awards

States	FC XII Share	FC XIII Share	Gain(+) Loss(-)
High Income States	10.940	10.677	-0.263
Maharashtra	4.997	5.199	+0.202
Gujarat	3.569	3.041	-0.528
Punjab	1.299	1.389	+0.090
Haryana	1.075	1.048	-0.027
Middle Income States	26.842	25.839	- 1.003
Tamil Nadu	5.35	4.969	-0.336
Karnataka	4.459	4.328	-0.131
Kerala	2.665	2.341	-0.324
Andhra Pradesh	7.356	6.937	-0.419
West Bengal	7.057	7.264	+0.207
Low Income States	47.773	48.346	+0.573
Rajasthan	5.609	5.853	+0.244
M.P.	6.711	7.120	+0.409
Orissa	5.161	4.779	-0.382
U.P.	19.264	19.677	+0.413
Bihar	11.028	10.917	-0.111

Computed from FC-XII and FC- XIII Reports

From the above table it is revealed that out of 14 Major States higher income states are net losers to the extent of 0.263. Maharashtra and Punjab are gainers whereas Gujarat and Haryana are losers. Middle income states are losers to the extent of 1.003. Except W.B. all middle income states are losers by FC XIII relative to FC XII. Low income states have gained to the extent of 0.573 out of FC XIII devolution relative to FC XII but the paradoxical situation emerges when Orissa and Bihar having higher poverty ratio are net losers out of FC XIII devolution of resources. From high and Middle income States there has been diversion of resources to the low income states for which FC XIII has attempted to redress the horizontal imbalances. Orissa and Bihar have to improve their fiscal prudence/discipline to appropriate increased share from FC XIII relative to FC XII.

GRANTS TO LOCAL BODIES

There has been considerable progress in the empowerment of PRIs and Municipalities since the 10th FC which made a provision for explicitly supporting local bodies through grants, subsequent to the passage of the 73rd and 74th amendment to the constitution in 1993. Basis of horizontal distribution of grants to local bodies as per FC XIII has been mentioned in the below table.

Table 5: Weights Allotted to Criteria for Grants to Local Bodies

Criterion	Weights Allotted (%)	
	Pris	Ulbs
Population	50	50
Area	10	10
Distance from highest per capita sectoral income	10	20
Index of devolution	15	15
SC/STs proportion in the population	10	-
FC local body grants utilization index	05	05
Total	100.00	100.00

Source: FC-XIII Report

Table 6: Recommended Grants for Local Bodies

Items/Year	Be 2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
General Basic Grant & Total Special Areas Grant		1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
General Performance Grants			0.50%	1.00%	1.00%	1.00%	0.78%
Aggregate Grants to Local Bodies	--	1.50%	2.00%	2.50%	2.50%	2.50%	2.28%
Projected Divisible Pool(2009-14)	545463	636183	746179	880156	1038188	1224995	3846169
General Basic Grant & Total Special Areas Grant	--	8182	9543	11193	13202	15573	57693
General Basic Grant	--	8022	9303	10873	12883	15253	56335
General Performance Grant	--	0	3181	7462	8802	10382	29826
General Basic Grant & General performance Grant	--	8022	12484	18335	21685	25635	86161
Total Spl. Areas Grant	--	160	239	319	319	319	1357
Spl. Areas Basic Grant		160	160	160	160	160	798
Spl. Areas Performance Grant	--	0	80	160	160	160	559
Agg. Grants to Local Bodies	--	8182	12724	18654	2204	25955	87519

Source: FC-XIII Report

From the above table it can be observed that over the 5 year tenure of FC XIII general basic grant and total special areas grant constitute 1.5% General performance grants and aggregate grants to local bodies constitute 0.78% and 2.28% respectively General basic grant and total special areas grant amounting to Rs. 57693 Cr. for the entire period of FC XIII. General basic grant and general performance grant and aggregate grants to local bodies comprise Rs. 86161 Cr. and Rs. 87519 Cr. for the entire period of FC XIII.

GRANTS-IN-AID

Under Article 275 of the Indian constitution there is provision of transfer of Grants-in-Aid to the State Govt. out of consolidated fund of India. It is an important component of FC transfers. The bulk of the grants has varied from 7.7% of total transfers under FC VII to 26.1% of total transfers under FC-VI, which declined to 18.9% under FC XII. Grants in Aid are an important instrument which enables the commission to make its scheme of transfers more comprehensive and address various issues mentioned in the Terms of Reference. Grants also help in correcting cost disabilities faced by many states which are possible to address only to a limited extent in any devolution formula. Various types of grants are mentioned below.

- **Post Devolution Non-Plan Revenue Deficit Grant:-** The normatively assessed post devolution (NPRD) for a state signifies the existence of vertical imbalance yet to be corrected and assessed need still to be met. Normative approach has been adopted in assessing the revenue and expenditure of states, which ensures that the assessed deficit is not due to inadequate revenue effort or excessive expenditure by any state. Therefore grants have been provided to those states having post devolution NPRD to meet this assessed deficit. This grant ranged from maximum of 100% to total grants as recommended by FC-IV and V, 33.1% by FC-IX, 39.86% by FC-XII and 16.26% by FC XIII.

The % has been reduced as most of the states have adhered to fiscal reform path laid down by FRBM legislation of respective states. Eight special category states viz. Arunachal Pradesh, HP, J &K, Manipur, Meghalaya, Mizoram,

Nagaland and Tripura will receive a sum of Rs. 51800 Cr. as NPRD grant under FC XIII.

Performance Incentive

There special category states, Uttarakhand, Assam and Sikkim had received NPRD grants from FC XII to make up for their assessed deficits. These states will receive Rs. 1000 Cr. Rs. 300 Cr. and Rs. 200 Cr. respectively from FC XIII. These states are eligible to receive grants particularly in view of their known cost disabilities and other fiscal challenges.

Grants for Elementary Education

FC XII had provided grants for the education sector based on the rationale of equalizing expenditure on this sector across states. The grants were fixed on the basis of a two stage normative measure of equalization. In the first stage states with low expenditure Preferences i.e. those states which had a lower exp. on education as a proportion of total revenue expenditure were identified and benchmarked to the average expenditure on education as a proportion of adjusted total revenue expenditure incurred by special and general category states. In the second stage, states which had lower per capita expenditure than the group average even after the adjustment made in the first stage were identified and grants to the extent of 15% of the difference between per capita expenditure of the group were provided. The Ministry of Human Resource Development had urged the Commission to provide grants especially for elementary education on the basis of actual estimation of resource requirements and gaps in each state rather than in accordance with the earlier methodology of equalization. The SSA, the national programme for universalisation of elementary education, through its various components takes a holistic view of the gaps and needs in terms of access, infrastructure, human resources and outcomes of the elementary education sector. FC XIII recommended grant for elementary education for all states to the tune of Rs. 24068 Cr.

Environment Related Grants:- As a consequence of forest conservation Act 1980 and following supreme court judgment in 2002 , there is a national provision for compensatory afforestation and net present value payment when land under forest is diverted to non forest uses for industrial or other purposes. These payments were to flow into a compensatory Afforestation Fund Management and Planning Authority (CAMPA). Environment Grant Comprises protection of forest, renewable energy and water sector management. The FC XIII has assigned Rs. 15,000 Cr. to environment for 2010-15.

Grants for Improving Outcomes

Under this head the FC XIII has considered the need to improve the quality of public expenditure to obtain better output and outcome. Three issues have been identified, such as (i) how to ensure that intended expenditure reaches the target group (ii) how to ensure that expenditure contains the right mix of inputs and (iii) how to ensure that the service provider has the required capacity and fully incentivize to provide the service at the desired standard. The first issue is vital as eliminating untargeted groups from the scope of benefits that improves the focus of the programme and reduces exp. without diluting its intended impact. The second issue is crucial as a service can be provided at an acceptable level only if all its required components are in place and situations like hospitals with doctors but no medicines are overcome. The third issue is important as it deals with the capacity of the service provider to provide the service and his willingness to do so at the desired standard.

Therefore FC-XIII traced out areas such as (i) putting in place an incentive framework to target public exp. (ii) promoting innovation to improve out come in public policy and district governance and (iii) improving transparency in

Govt. accounts to better reflect and measures output and outcomes and concomitantly improve accountability. A sum of Rs. 14446 Cr. has been recommended by FC XIII under this grant.

Incentive Grants

Better Targeting of Subsidies through UID

Central Govt. expenditures on subsidies is expected to be Rs. 1,11,000 Cr. in 2009-10 constituting 18% of the non plan expenditures. State level subsidies for power, irrigation and food for 2009-10 aggregate to about Rs. 34,000 Cr. FC-XII has considered the issue of improving the targeting of subsidies and related social safety net programmes. The data base of eligible persons presently maintained has both Type-I (exclusion) and Type-II (inclusion) errors. The first error arises from the difficulty faced by the poor in establishing their identity to be eligible for Govt. subsidies and social safety net programmes. The second error arises because of the inability to cross verify list of eligible persons across district level and state level data bases to eliminate duplicate entries. Creation of a biometric based unique identity for all residents in the country has the potential to address both these dimensions simultaneously which will provide the basis for focusing subsidies to target groups. The support to the initiative for creation of unique, biometric based identities will trigger significant improvement in output and outcome. UIDAI plans to issue identities to at least 600 million residents of India by 2014. The aim is to co-opt central and state Govt. and other agencies such as Banks and Registrars who would process the UID applications, connect to the central ID Data Repository (CIDDR) to be managed by the UIDAI, confirm the uniqueness of each applicant and received a UID number from UIDAI which would be allotted to the applicant .

The second category of registrars will be the state Govt. Dept. implementing programmes like PDS and RSBY which intend to cover people living below poverty line. Further FC XIII proposes to incentivize issue of UID only to those people below poverty line who are beneficiaries of public welfare schemes like NREGS and PDS. The incentive of Rs. 100 per person, effectively Rs. 400-500 per family would be adequate for incentivizing citizens below the poverty line to register for the UID. The commission has recommended a grant of Rs. 2989.10 Cr. to state Govt. in this regard.

Incentive for Reducing Infant Mortality

FC XIII intends to incentivize states to improve their HDI for which the focus on improvement in IMR has been made. The SRS measuring IMR for 2009 will be the base line from which improvement of each state's will be measured. The annual improvement in these indicators as determined from the SRS bulletin/statistical Report for the succeeding years will be measured from the baseline. Each state's eligibility will be determined annually, based upon improvement in IMR index. FC-XII recommended Rs. 5000 Cr. for this grant over a three year period between 2012 and 2015.

Grants –in –Aid to States by FC-XII and FC-XIII has been mentioned in the below table.

Table 7: Grants-in-Aid to States Amount (Rs. In Cr)

S. No.	Items	(FC- XII)	FC XIII
I	Local Bodies	25000	87519
II	Disaster Relief (Including for capacity building)	16000	26373
III	Post Devolution NPRD	56856	51800
IV	Performance Incentive	-	1500
V	Elementary Education	10172	24068
VI	Environment	1000	5000
	(a) Protection of forests		
	(b) Renewable Energy	-	5000
	(c) Water sector Management	-	5000

VI	Improving Out come		14446
Table 7: Contd.,			
	(a) Reduction in IMR	-	5000
	(b) Improvement in supply of Justice	-	5000
	(c) Incentive for issuing UIDs	-	2989
	(d) District Innovation	-	616
	(e) Improvement of statistical systems of State and District level	-	616
	(f) Employee and Pension Data Base	-	225
VIII	Maintenance of Roads and Bridges	15000	19930
IX	State specific Needs	7100	27945
	Total FC Grants	142640	318581

The above table reveals that Grants to local bodies has increased from Rs. 25,000 Cr. to Rs. 87,519 Cr. Disaster Relief Grant has increased from Rs. 16,000 Cr. to Rs. 26,373 Cr. But post devolution NPRD has declined from Rs. 56856 Cr. to Rs. 51,800 Cr. as it is earmarked exclusively for 8 special category states. Elementary education grant has increased from Rs. 10172 Cr. to Rs. 24068 Cr. State specific needs grant has increased from Rs. 7100 Cr to Rs. 27945 Cr. Total FC-XIII Grants has increased from Rs. 142640 Cr. to Rs. 318581 Cr. relative to FC XII Grants.

Table 8: Transfers Recommended by FC (Rs. Incr)

Commission	Grants in Aid (Amount)	% Share	Share in Taxes (Amount)	% Share	Total (Amount)
VII	1609.92	7.72	19233.05	92.28	20842.97
VIII	3769.43	9.55	35682.58	90.45	39452.01
IX	11030.38	9.96	99667.64	90.04	110698.02
X	20300.30	8.96	206343.00	91.04	226643.30
XI	58587.39	13.47	376318.01	86.53	434905.40
XII	142639.60	18.87	613112.02	81.13	755751.62
XIII	318581.00	18.03	1448368.53	81.97	1766949.53

From the above table it can be construed that amount of Grants-in-Aid transferred to state Govt. has increased from Rs. 1609.92 Cr. by FC VII to Rs. 318581 Cr. by FC XIII. The % share of Grant in Aid increased from 7.72 to 9.96 over FC VII to FC IX but declined to 8.96 under FC-X, increased to 18.87 under FC XII but declined to 18.03 under FC-XIII. The amount of tax devolution increased from Rs. 19233.05 Cr to Rs. 1448368.53 Cr. over the FC-VII to FC-XIII. The % share of state Govt. in tax devolution declined from 92.28 to 81.13 from FC-VII to FC-XII but increased marginally to 81.97 under FC XIII. Total amount of transfer from centre to state Govt. increased from Rs. 20842.97 Cr. to Rs. 1766949.53Cr. Over FC VII to FC-XIII

CONCLUSIONS

As equity criterion has been undermined by 2.5% and fiscal discipline has been prioritized by the pro rata percentage, both Orissa and Bihar are losers from FC-XIII devolution of resources. Since out of major 14 States 6 states are gainers and 8 states are losers and out of 28 states 18 states are gainers and 10 states are losers, the present FC-XIII has calibration of equity criterion with efficiency criterion. The loser states have to improve their fiscal efficiency to appropriate higher shares from FC awards.

The question that may be raised is that if the share of the poorer states in central revenues is enlarged as much as normative approach would require and that of richer states reduced, will that not be discriminatory against the better performing states and thus be detrimental to the growth of the economy. While the argument looks persuasive, it overlooks the possibility that improvement in the regions that are lagging behind may unleash the growth potential of the country.

Keeping these regions backward also may not be in the larger interest of the Nation or even the best interest of the states that are already advanced. It would of course not be reasonable to expect all regions to attain the same level of development irrespective of their endowment. However fiscal equalization is imperative to prevent migration lured by better living conditions in the richer states and also as a matter of 'categorical Equity' as Musgrave (1999) insists. The better off states should not complain the flow of larger central funds to the poorer states. The task of fiscal transfer is therefore to provide a level playing field. What is required is not giving less to the poor because they are poor but to contemplate that they improve their efficiency by channelizing the transferred amount properly.

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